

**PROGRAM TO SUPPORT DECENTRALIZATION OF THE
POTABLE WATER AND SANITATION SECTOR**

(VE-0111)

EXECUTIVE SUMMARY

BORROWER: Republic of Venezuela

GUARANTOR: Republic of Venezuela

EXECUTING AGENCY: HIDROVEN and decentralized companies

AMOUNT AND SOURCE: IDB: US\$100 million (OC)
Local contribution: US\$100 million
Total: US\$200 million

**FINANCIAL
TERMS AND
CONDITIONS:** Amortization period: 20 years
Grace period: 5 years
Disbursement period: 5 years
Interest rate: variable
Inspection and supervision: 1%
Credit fee: 0.75%
Currency: United States dollars
the Single Currency
Facility

OBJECTIVES: The objective of the proposed operation is to improve the quality and increase the coverage of water and sanitation services by establishing efficient and functionally autonomous companies that deliver quality services to the public. The program's specific objectives are: a) to consolidate decentralization of the sector; b) to create and consolidate efficient and optimally sized service operator companies, and c) to promote private-sector participation in the newly created companies.

DESCRIPTION: This is an open program to which municipalities and states that create companies may apply. It consists of four components: two involving studies and activities aimed at creating companies, and two others whose purpose is to strengthen business and investment.

1. Decentralization of the services

This component will finance the activities involved in creating the operator companies. It includes the design of the service contract between the municipalities and the new companies, the program contracts, the preparation of a transition strategy and establishment of the new companies, and the initial financial statements.

2. Private sector participation

This component will finance the studies and documentation to engage the private sector in the systems' management. It includes drafting the terms

and conditions and contracts between the new company and the private-sector operator, providing support in the selection of operators, and the transfer of services.

3. Business strengthening and immediate rehabilitation works

This component will finance administrative, financial, business-related (for example, master and individual metering systems, preparation of network and user surveys, collection systems, administrative-accounting systems, accounting and budget integration and computerization). It will also finance immediate rehabilitation works that have a direct, positive effect on the service's quality, reliability and financial sustainability in the short run and that can be carried out in less than one year (for example, dividing up networks into sectors and modernizing pumping stations).

4. Systems' rehabilitation and expansion

This is to finance major works to rehabilitate and expand water supply, sewerage and water treatment systems. Examples of such works are waste water treatment plants, sewage treatment plants, new sewer mains, storage tanks and filters.

**PROJECT'S
ROLE IN THE BANK'S
COUNTRY AND SECTOR
STRATEGY:**

The Bank's strategy in Venezuela is geared toward, *inter alia*, supporting the State's modernization, especially with the decentralization process and more efficient and equitable social services. The proposed operation is an effort to consolidate decentralization within the sector by making the institutions that provide water and sanitation services at the decentralized level autonomous and efficient, while at the same time promoting private-sector participation. This operation is a continuation of the strategy introduced in the states of Lara and Monagas; in the case of the state of Lara, the strategy was financed by the Bank (loan 994/OC-VE). The Monagas company is run by a private operator; a private operator will soon be running the Lara company as well.

**ENVIRONMENTAL/
SOCIAL REVIEW:**

Because of the nature of the operation, its Operating Regulations include environmental-management measures, among them the following: i) the companies' hiring of an environmental specialist; ii) establishment of environmental requirements for project eligibility; iii) preparation of manuals on how to perform the socio-environmental evaluations; and iv) hiring of evaluation firms to ascertain how valid the evaluations are and the extent to which socio-environmental requirements were met (see paragraph 3.24).

BENEFITS:

Expectations are that by program's end at least six administratively, technically and financially autonomous and efficient companies will have been established. The decentralization process will have been furthered, thereby serving to ensure that the public has adequate water supply and sanitation

services.

RISKS:

Risk: That the companies will not introduce the rate increases required to qualify for the various program components. Mitigating factors: i) Current earnings levels are not sufficient to cover some inefficient cost structures in the companies. The measures included in the companies' growth strategies are intended to cut costs and make the companies more efficient, which means that the needed rate increase might not be so large; ii) the public companies created will be governed by program contracts, and the private companies by performance contracts (or contracts of other kinds). Either way, the contracts will stipulate that the companies are required to adopt tariff formulas and levels that cover the real costs of providing the service.

Risk: The complex scheme for carrying out the program will require an enormous effort on HIDROVEN's part. Mitigating factors: To minimize this risk, HIDROVEN's current executing unit will be strengthened. There are also plans to hire independent evaluation firms to assist HIDROVEN by certifying the companies' eligibility for the program's various components. A midterm review will be done at month 18 and month 36 to determine how much progress has been made and to make whatever adjustments are needed.

**SPECIAL
CONTRACTUAL
CONDITIONS:**

1. Precedent to the first disbursement, HIDROVEN is to have:
 - a. Put the program's Operating Regulations into force (see paragraph 3.4);
 - b. Prepared a list of firms qualified to do the evaluation of compliance with program requirements (see paragraph 3.13), and
 - c. Designated the staff needed to reinforce HIDROVEN's executing unit (see paragraph 3.2).
2. Mid-term meetings will be held 18 and 36 months after the date of contract signature to assess the rate of advance of the program.

**POVERTY-
TARGETING:**

This program does not qualify as a poverty-targeted investment.

**CONTRACTING OF
CONSTRUCTION WORK,
GOODS AND
SERVICES:**

The thresholds above which the procurement under this program will be done through international competitive bidding are: US\$3 million for construction works, US\$350,000 for related goods and services, and US\$200,000 for consulting services.

**EXCEPTIONS TO
BANK POLICY:**

None.

PROCUREMENT:

The plan is to do an ex post review of the procurement procedures at the time of the midterm reviews to be done 18 and 36 months from the date on which the operation is approved. The procedures to

be reviewed will be selected at random.